Management's Discussion & Analysis of
Financial Condition and Results of Operations

Quarter Ended March 31, 2010

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of companies (the "Company" or "LMG"), for the three months ended March 31, 2010 and 2009. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's 2009 Annual Report, 2010 Unaudited Consolidated Financial Statements and First Quarter 2010 Financial Supplement located on the Company's Investor Relations website at www.libertymutual.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

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Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

In particular, the sufficiency of the Company's reserves for (i) asbestos, (ii) environmental ((i) and (ii) together "A&E"), and (iii) toxic tort (i.e., claims that arise primarily from exposure to chemical or other potentially hazardous products or substances, including welding rod, lead paint and silica related claims), as well as its results of operations, financial condition and liquidity, to the extent impacted by the sufficiency of the Company's A&E and toxic tort reserves, are subject to a number of potential adverse developments including adverse developments involving A&E and toxic tort claims and the related level and outcome of litigation, the willingness of parties, including the Company, to settle disputes, the interpretation of aggregate policy coverage limits, the Company's ability to recover reinsurance for A&E, toxic tort and other claims, the legal, economic, regulatory, and legislative environments, and their impact on the future development of A&E and toxic tort claims, and the impact of bankruptcies of various asbestos producers and related peripheral businesses.

Some of the other factors that could cause actual results to differ include, but are not limited to, the following: the Company's inability to obtain price increases or maintain market share due to competition or otherwise; the performance of the Company's investment portfolio, which could suffer reduced returns or losses adversely affecting the Company's profitability, capitalization and liquidity; market conditions that may limit the Company's ability to replace maturing liabilities in a timely manner or that may make it difficult to value the Company's investments; developments in U.S. and global financial and capital markets, including changes in interest rates, rates of inflation, credit spreads, equity prices and foreign exchange rates; losses due to defaults of individual issuers and defaults of the collateral backing certain investments; recessionary U.S. and global economic conditions, which could adversely affect the Company's ability to grow its business profitably; the potential effect of legislation and other governmental initiatives taken in response to stress in financial markets and economic conditions; insufficiency of, or changes in, loss reserves; the occurrence of catastrophic events, both natural and man-made, including terrorist acts, with a severity or frequency exceeding the Company's expectations; adverse changes in loss cost trends, including inflationary pressures in medical costs and automobile and home repair costs; developments relating to coverage and liability for mold claims; the effects of corporate bankruptcies; adverse developments in the cost, availability and/or ability to collect reinsurance, which may be adversely affected by current economic conditions; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; the ability of the Company's subsidiaries to pay dividends to the Company; adverse results or other consequences from legal proceedings; the impact of regulatory investigations or reforms, including governmental actions regarding the compensation of brokers and agents and the purchase and sale of nontraditional products and related disclosures; unusual loss activity resulting from adverse weather conditions, including hurricanes, hail, tornados, snowfall and winter conditions; repatriation of foreign earnings; judicial expansion of policy coverage and the impact of new theories of liability; the impact of legislative actions, including proposed Federal legislation related to natural catastrophe funds and financial services regulation reform; larger than expected assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings, which could adversely affect its business volumes, adversely affect its ability to access the debt markets and increase its borrowing costs; the loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of Personal Lines policies; and changes to the risk-based capital requirements. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements,

visit the Company's Investor Relations website at www.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's unaudited financial statements.

Three Months Ended March 31, 2010 - Consolidated Results of Operations

- Revenues for the three months ended March 31, 2010 were $8.190 billion, an increase of $784 million or 10.6% over the same period in 2009.
- Net written premium for the three months ended March 31, 2010 was $7.209 billion, an increase of $181 million or 2.6 % over the same period in 2009.
- Pre-tax operating income before private equity income for the three months ended March 31, 2010 was $304 million, a decrease of $91 million or 23.0% from the same period in 2009.
- Pre-tax operating income for the three months ended March 31, 2010 was $388 million, an increase of $366 million over the same period in 2009.
- Net income for the three months ended March 31, 2010 was $315 million, an increase of $293 million over the same period in 2009.
- Cash flow from operations for the three months ended March 31, 2010 was $459 million, an increase of $74 million or 19.2% over the same period in 2009.
- The combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2] for the three months ended March 31, 2010 was 97.8%, an increase of 0.4 points over the same period in 2009. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the three months ended March 31, 2010 increased 2.7 points to 102.2%.

Financial Condition as of March 31, 2010

- Total assets were $110.191 billion as of March 31, 2010, an increase of $716 million over December 31, 2009.
- Policyholders' equity was $14.937 billion as of March 31, 2010, an increase of $423 million over December 31, 2009.
- Total debt was $5.636 billion as of March 31, 2010, a decrease of $304 million from December 31, 2009.

[1] Catastrophes include all current and prior year catastrophe losses including assessments from the Texas Windstorm Insurance Association ("TWIA") and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

[2] Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (excluding prior year losses related to natural catastrophes and the events of September 11, 2001) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

Other 2010 1st Quarter Highlights

- Effective January 1, 2010, the Company's Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency, which had no impact on consolidated policyholders' equity at January 1, 2010. However, on January 8, 2010, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to a dual exchange rate system. This dual exchange rate system for the fixed official exchange rate includes a 2.60 Bolivar Fuertes (BsF) rate to 1 U.S. dollar for food and other items as mandated by the Venezuelan government, and a 4.30 BsF to 1 U.S. dollar rate for all other items. The impact of the devaluation on pre-tax operating income in the quarter ended March 31, 2010 was an increase of $14 million.

  Additionally, while the devaluation has, in U.S. dollars, reduced net written premium and loss and loss adjustment expense reserves in 2010 compared to the prior period, the anticipated impact to consolidated equity is not expected to be material. This is due primarily to a combination of certain investments either denominated in, or linked to, the official U.S. dollar exchange rate, as well as the earn-out and amortization of the unearned premium reserve and deferred acquisition cost asset at 2.15 BsF to 1 U.S. dollar, which existed prior to the devaluation.

- Effective January 1, 2010, Summit Holdings, a mono-line workers compensation company for Florida and the Southeast, previously a segment of Agency Markets, became part of Commercial Markets.

- On February 1, 2010, the Company redeemed its $300 million, 4.875% Notes at maturity.

Subsequent Events

- On May 10, 2010, the Company’s subsidiary, Liberty Mutual Agency Corporation ("LMAC"), filed a Registration Statement on Form S-1 with the Securities and Exchange Commission (the “SEC”) with the intent to form a public company comprising substantially all of its Agency Markets Strategic Business Unit and to sell up to 20% of its interest in LMAC through an initial public offering. Liberty Mutual Group intends to maintain a significant interest in LMAC going forward. The registration requires the review of the SEC, which the Company expects to be completed in the third quarter of 2010.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated pre-tax operating income ("PTOI") and PTOI before private equity income (loss) as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains (losses), extraordinary items, discontinued operations and cumulative effects of changes in accounting principles. PTOI before private equity income (loss) is defined as PTOI excluding limited partnership results recognized on the equity method. PTOI before private equity income (loss) and PTOI are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized investment gains (losses) and limited partnership results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results. Income taxes are significantly impacted by permanent differences. References to "direct written premium" represent the amount of premium recorded for policies issued during a fiscal period excluding assumed and ceded reinsurance. References to "net written premium" represent the amount of premium recorded for policies issued during a fiscal period including audits, retrospectively rated premium related to loss sensitive policies, and assumed premium, less ceded premium. Assumed and ceded reinsurance premiums include premium adjustments for reinstatement of coverage when a loss has used some portion of the reinsurance provided, generally under catastrophe treaties ("reinstatement premium"). In addition, the majority of workers compensation premium is adjusted to the "booked as billed" method through the Corporate & Other segment. The Company believes that net written premium is a performance measure useful to investors as it generally reflects current trends in the Company's sale of its insurance products.

The Company's discussions related to net income are presented on an after-tax GAAP basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

Effective January 1, 2010, the Company's Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency, which had no impact on consolidated policyholders' equity at January 1, 2010. However, on January 8, 2010, the Venezuelan government devalued its currency, announcing that the fixed official exchange rate would be changed to a dual exchange rate system. This dual exchange rate system for the fixed official exchange rate includes a 2.60 Bolivar Fuertes (BsF) rate to 1 U.S. dollar for food and other items as mandated by the Venezuelan government, and a 4.30 BsF to 1 U.S. dollar rate for all other items. The impact of the devaluation on pre-tax operating income in the quarter ended March 31, 2010 was an increase of $14 million.

Additionally, while the devaluation has, in U.S. dollars, reduced net written premium and loss and loss adjustment expense reserves in 2010 compared to the prior period, the anticipated impact to consolidated equity is not expected to be material. This is due primarily to a combination of certain investments either denominated in, or linked to, the official U.S. dollar exchange rate, as well as the earn-out and amortization of the unearned premium reserve and deferred acquisition cost asset at 2.15 BsF to 1 U.S. dollar, which existed prior to the devaluation.

On May 10, 2010, the Company's subsidiary, Liberty Mutual Agency Corporation ("LMAC"), filed a Registration Statement on Form S-1 with the Securities and Exchange Commission (the "SEC") with the intent to form a public company comprising substantially all of the Agency Markets Strategic Business Unit and to sell up to 20% of its interest in LMAC through an initial public offering. Liberty Mutual Group intends to maintain a significant interest in LMAC going forward. The registration requires the review of the SEC, which the Company expects to be completed in the third quarter of 2010. The financial information presented herein for the Liberty Mutual Group Agency Markets reporting unit differs from LMAC due to differences in the treatment of investment income, reinsurance, and certain other expenses and formation transactions and as such is not directly comparable to the financial information set forth in the filing for Liberty Mutual Agency Corporation.

Overview – Consolidated

Consolidated net written premium (NWP) by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
Private passenger automobile	$2,399	$2,309	3.9%
Workers compensation	1,064	1,204	(11.6)
Homeowners	618	433	42.7
Commercial multiple peril / fire	588	593	(0.8)
International local businesses	449	479	(6.3)
LIU[1] reinsurance	396	382	3.7
Commercial automobile	393	386	1.8
General liability	296	310	(4.5)
Bond	174	160	8.8
Group disability and life	171	147	16.3
LIU third party	161	122	32.0
LIU inland marine program	157	163	(3.7)
Individual life	74	61	21.3
LIU first party	60	61	(1.6)
Assumed voluntary reinsurance	42	43	(2.3)
Other[2]	167	175	(4.6)
Total NWP[3]	$7,209	$7,028	2.6%

1 Liberty International Underwriters ("LIU").
2 Primarily includes net written premium from allied lines and domestic inland marine.
3 Net written premium associated with internal reinsurance has been re-allocated to the appropriate lines of business.

Consolidated net written premium by Strategic Business Unit (SBU) was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
Agency Markets[1]	$2,513	$2,528	(0.6%)
International	1,747	1,692	3.3
Personal Markets	1,572	1,423	10.5
Commercial Markets[1]	1,478	1,603	(7.8)
Corporate and Other[2]	(101)	(218)	(53.7)
Total net written premium (NWP)	$7,209	$7,028	2.6%
Foreign exchange effect on growth, excluding Venezuelan devaluation			1.7
Venezuelan devaluation			(3.1)
Total foreign exchange effect on growth			(1.4)
NWP growth excluding foreign exchange and Venezuelan devaluation			4.0%

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.
2 Includes internal and external reinsurance including homeowners quota share reinsurance treaties entered into in the fourth quarter of 2009 and 2008, respectively.

Major drivers of net written premium growth were as follows:

	Three Months Ended March 31,			
$ in Millions	**2010**	**2009**	**$ Change**	**Points Attribution**
LMG NWP	$7,209	$7,028	$181	2.6
Components of Growth:				
-Domestic homeowners	752	656	96	1.4
-Homeowners quota share	(134)	(223)	89	1.3
Total Homeowners	618	433	185	2.7
International local businesses (excluding foreign exchange)	1,171	1,039	132	1.9
Domestic personal auto	1,808	1,749	59	0.8
Group disability and life	171	147	24	0.3
Bond	174	160	14	0.2
Individual life	74	61	13	0.2
Foreign exchange and Venezuelan devaluation	(101)	-	(101)	(1.4)
Other commercial lines	3,294	3,439	(145)	(2.1)
Total LMG NWP	$7,209	$7,028	$181	2.6

Consolidated net written premium by U.S. or foreign distribution channels were as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
U.S.	$5,720	$5,581	2.5%
International	1,489	1,447	2.9
Total NWP	$7,209	$7,028	2.6%

Net written premium for the three months ended March 31, 2010 was $7.209 billion, an increase of $181 million over the same period in 2009. Significant changes by major line of business include:

- Private passenger automobile net written premium increased $90 million over the same period in 2009. The increase primarily reflects strong retention, new business growth, and rate increases in Personal Markets, as well as organic growth in International's local businesses in Latin America mainly due to inflation in Venezuela. The increase was partially offset by a decline in Europe as a result of Spain's continuing economic contraction and the net impact of foreign exchange (approximately $37 million) and lower premiums in Agency Markets.
- Workers compensation net written premium decreased $140 million from the same period in 2009. The decrease primarily reflects a decrease in exposures and audit premium due to weak economic conditions, state mandated rate decreases of 8.2% in Florida, and a decline in assumed premium from the state based involuntary market pools.
- Homeowners net written premium increased $185 million over the same period in 2009. The increase is primarily driven by the non-renewal of a portion of the homeowners quota share reinsurance treaty of $89 million, new business growth, and rate increases.
- International local businesses net written premium (excluding private passenger automobile), decreased $30 million from the same period in 2009. The decrease was driven by the Venezuelan devaluation of approximately $125 million and a decline in Europe due to Spain's continued economic contraction, partially offset by the impact of stronger foreign currencies versus the U.S. dollar of approximately $32 million.
- Bond net written premium increased $14 million over the same period in 2009. The increase is primarily from contract customers.

- Group disability and life net written premium increased $24 million over the same period in 2009. The increase reflects broader penetration of those markets.
- LIU third party net written premium increased $39 million over the same period in 2009. The increase primarily reflects growth and a decrease in ceded written premium due to a change in the structure of certain reinsurance programs.
- Individual life net written premium increased $13 million over the same period in 2009. The increase primarily reflects higher structured settlement sales.

More detailed explanations of the changes in net written premium by line of business are included in the related discussion of financial results for each segment.

For a more complete description of the Company's business operations, products and distribution channels, please visit the Company's Investor Relations web site at www.libertymutual.com/investors.

Results of Operations – Consolidated

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[2]**	**Change**
Revenues	$8,190	$7,406	10.6%
PTOI before catastrophes, net incurred losses attributable to prior years and private equity income (loss)	$602	$538	11.9%
Catastrophes[3,4]	(411)	(326)	26.1%
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(3)	(1)	200.0%
- All other[5]	116	184	(37.0%)
Pre-tax operating income before private equity income (loss)	304	395	(23.0%)
Private equity income (loss) [6]	84	(373)	NM
Pre-tax operating income	388	22	NM
Realized gains, net	95	6	NM
Income tax expense	(168)	(6)	NM
Net income	$315	$22	NM
Cash flow from operations	$459	$385	19.2%

1 Effective January 1, 2010, the Venezuelan operations of the Company's International SBU began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency.
2 2009 results have been restated for the retrospective accounting change related to the change in the discount rate applied to the long-term indemnity portion of the settled unpaid workers compensation claims.
3 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
4 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.
5 Net of earned premium attributable to prior years of $12 million and zero for the three months ended March 31, 2010 and 2009, respectively. Net of amortization of deferred gains on retroactive reinsurance of $18 million and $17 million for the three months ended March 31, 2010 and 2009, respectively.
6 Private equity income (loss) is included in net investment income in the accompanying statements of income.
NM = Not Meaningful

PTOI for the three months ended March 31, 2010 was $388 million, an increase of $366 million over the same period in 2009. The increase reflects an increase in private equity income of $457 million as a result of improved market valuations over the same period in 2009 and higher PTOI in Agency Markets. The increase was partially offset by increases in catastrophe losses primarily due to the Chilean earthquake and less favorable net incurred losses attributable to prior years.

Revenues for the three months ended March 31, 2010 were $8.190 billion, an increase of $784 million over the same period in 2009. The major components of revenues are net premium earned, net investment income, net realized investment gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2010 was $7.099 billion, an increase of $217 million over the same period in 2009. The increase primarily reflects a decrease of ceded premium of approximately $95 million due to the non-renewal of a portion of the homeowners quota share treaty as of December 31, 2009, the impact of stronger foreign currencies versus the U.S. dollar, excluding the Venezuelan devaluation, and the earned premium associated with the other changes in net written premium previously discussed.

Net investment income for the three months ended March 31, 2010 was $810 million, an increase of $473 million over the same period in 2009. The increase reflects the increase of limited partnerships' and limited liability companies' income of $457 million as a result of improved market valuations over the

same period in 2009 and continued investment of cash flows from operations, offset by slightly lower investment yields and higher investment expenses attributable to variable incentive compensation.

Net realized investment gains for the three months ended March 31, 2010 were $95 million, an increase of $89 million over the same period in 2009. The increase primarily reflects a decrease in impairment losses recorded in 2010 on fixed maturity and equity investments related to securities deemed to be other-than-temporarily impaired due to the improving market conditions. Fixed maturity gains for the three months ended March 31, 2010 reflect gains recognized from the sale of securities related to portfolio re-alignment compared to equity gains recognized for the three months ended March 31, 2009 related to the Company's decision to reduce its equity exposure. Other realized gains for the three months ended March 31, 2009 included $25 million related to equity swap derivative contracts that terminated in January 2009.

Fee and other revenues for the three months ended March 31, 2010 were $186 million, an increase of $5 million over the same period in 2009. The increase is driven by higher oil and gas revenues due to increases in price and production from the Company's energy operations. Partially offsetting the increase is lower commission revenue from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members.

Claims, benefits and expenses for the three months ended March 31, 2010 were $7.707 billion, an increase of $329 million over the same period in 2009. The increase reflects higher losses and expenses associated with catastrophes, a decrease in ceded losses and expenses associated with the homeowners quota share reinsurance treaty, business growth in Personal Markets and International's Latin American operations, less favorable net incurred losses attributable to prior years, and the impact of foreign exchange.

Income tax expense for the three months ended March 31, 2010 was $168 million, an increase of $162 million over the same period in 2009. The Company's effective tax rate for the three months ended March 31, 2010 was 35%, compared to 21% for the same period in 2009. The increase in the effective tax rate from 2009 to 2010 was due to a $55 million one-time charge related to the recently enacted federal health care legislation which eliminated the tax benefit associated with Medicare Part D subsidies.

Net income for the three months ended March 31, 2010 was $315 million, an increase of $293 million over the same period in 2009.

Cash flow from operations for the three months ended March 31, 2010 was $459 million, an increase of $74 million over the same period in 2009. The increase in the quarter reflects a decrease in ceded premium payments associated with the homeowners quota share treaty, higher premium collections in Personal Markets and International, and lower catastrophe paid losses, partially offset by a large loss payment related to the payment of an asbestos claim recorded in the prior year.

	Three Months Ended March 31,		
CONSOLIDATED	2010[1]	2009	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	69.4%	69.2%	0.2
Underwriting expense ratio	28.2	28.0	0.2
Dividend ratio	0.2	0.2	-
Subtotal	97.8	97.4	0.4
Catastrophes[2]	6.2	4.9	1.3
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(1.8)	(2.8)	1.0
Total combined ratio[3]	102.2%	99.5%	2.7

1 2010 combined ratio has been adjusted to exclude the impact of the Venezuelan devaluation for comparative purposes.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and LIU reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less fee income (primarily related to the Company's involuntary market servicing carrier operations and managed care income) and less installment charges; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2010 was 97.8%, an increase of 0.4 points over the same period in 2009. The increase in the claims and claim adjustment expense ratio is attributable to the impact of the Chilean earthquake on the LIU reinsurance business and the Commercial Markets assumed voluntary reinsurance line of business, and to a lesser extent, the impact of weather-related losses in International. Partially offsetting the increase were favorable property results in Agency Markets and favorable trends in the Personal Markets auto physical damage line of business. The increase in the underwriting expense ratio primarily reflects an increase in commission expense due to the change in the Commercial Markets Middle Market distribution structure and Personal Markets advertising expenditures, partially offset by a decline in LIU inland marine and third party business commission expense due to reinsurance program changes, and efficiencies associated with the Safeco Corporation ("Safeco") acquisition.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2010 was 102.2%, an increase of 2.7 points over the same period in 2009. The increase in the quarter reflects the changes in the combined ratio components previously discussed, higher assumed catastrophe losses in Corporate and Other primarily related to the Chilean earthquake and less favorable net incurred losses attributable to prior years.

AGENCY MARKETS

Overview – Agency Markets

Agency Markets delivers personal and commercial insurance products and services to individuals and small to mid-sized businesses through independent agents and brokers throughout the United States. Commercial lines products are offered through eight regional insurance companies that combine their local underwriting, market knowledge and service orientation with the scale advantages of a national company. Personal lines products are distributed nationally under the Safeco brand, with an emphasis on service, and product and pricing sophistication. Liberty Mutual Surety is a leading provider of nationwide contract and commercial surety bonds to businesses of all sizes.

On May 10, 2010, the Company's subsidiary, Liberty Mutual Agency Corporation ("LMAC"), filed a Registration Statement on Form S-1 with the Securities and Exchange Commission (the "SEC") with the intent to form a public company comprising substantially all of the Agency Markets Strategic Business Unit and to sell up to 20% of its interest in LMAC through an initial public offering. Liberty Mutual Group intends to maintain a significant interest in LMAC going forward. The registration requires the review of the SEC, which the Company expects to be completed in the third quarter of 2010. The financial information presented herein for the Liberty Mutual Group Agency Markets reporting unit differs from LMAC due to differences in the treatment of investment income, reinsurance, and certain other expenses and formation transactions and as such is not directly comparable to the financial information set forth in the filing for Liberty Mutual Agency Corporation.

Agency Markets net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**
Personal Lines (Safeco)	$1,198	$1,186	1.0%
Regional Companies Group	1,108	1,143	(3.1%)
Liberty Mutual Surety	174	160	8.8%
Other[2]	33	39	(15.4%)
Total net written premium	$2,513	$2,528	(0.6%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.

2 Includes run-off operations and internal reinsurance.

Agency Markets net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**
Commercial Lines			
Commercial multiple peril	$455	$467	(2.6%)
Commercial automobile	268	278	(3.6%)
Workers compensation	223	228	(2.2%)
Bond	174	160	8.8%
General liability	122	127	(3.9%)
Other	68	66	3.0%
Subtotal	$1,310	$1,326	(1.2%)
Personal Lines			
Private passenger automobile	$781	$806	(3.1%)
Homeowners	323	296	9.1%
Other	99	100	(1.0%)
Subtotal	$1,203	$1,202	0.1%
Total net written premium	$2,513	$2,528	(0.6%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.

Net written premium for the three months ended March 31, 2010 was $2.513 billion, a decrease of $15 million from the same period in 2009. The decrease in the quarter reflects lower commercial lines and personal auto renewal premium due to competitive market conditions, partially offset by rate increases in homeowners, higher bond premium driven by contract customers, and increased written premium associated with the introduction of an annual automobile product in additional states.

Results of Operations – Agency Markets

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**
Revenues	$2,782	$2,876	(3.3%)
PTOI before catastrophes and net incurred losses attributable to prior years	$375	$316	18.7%
Catastrophes[2]	(142)	(206)	(31.1%)
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[3]	103	150	(31.3%)
Pre-tax operating income	$336	$260	29.2%

1 Effective January 1, 2010, the Summit results of operations, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

2 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium attributable to prior years.

PTOI for the three months ended March 31, 2010 was $336 million, an increase of $76 million over the same period in 2009. The increase in the quarter is primarily due to favorable property results, lower catastrophe losses, lower expenses due to the integration of the Safeco operations, and higher investment income**.** Partially offsetting these increases were less favorable losses attributable to prior years and the impact of lower earned premiums compared to the same period in 2009.

Revenues for the three months ended March 31, 2010 were $2.782 billion, a decrease of $94 million from the same period in 2009. The major components of revenues are net premium earned and net investment income.

Net premiums earned for the three months ended March 31, 2010 were $2.540 billion, a decrease of $110 million from the same period in 2009. The decrease in the quarter is primarily associated with the changes in net written premium previously discussed.

Net investment income for the three months ended March 31, 2010 was $218 million, an increase of $16 million over the same period in 2009. The increase primarily reflects a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three months ended March 31, 2010 were $2.446 billion, a decrease of $170 million from the same period in 2009. The decrease resulted from favorable property results, lower catastrophe losses, favorable expenses due to efficiencies from the Safeco acquisition, and lower premiums in the period, partially offset by less favorable incurred losses attributable to prior years.

	Three Months Ended March 31,		
			Change
AGENCY MARKETS	**2010[1]**	**2009[1]**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	62.0%	63.2%	(1.2)
Underwriting expense ratio	30.6	31.2	(0.6)
Dividend ratio	0.2	0.2	-
Subtotal	92.8	94.6	(1.8)
Catastrophes[2]	5.6	7.9	(2.3)
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[3]	(4.1)	(5.8)	1.7
Total combined ratio	94.3%	96.7%	(2.4)

1 Effective January 1, 2010, the Summit results of operations, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.
2 Catastrophes include all current and prior year catastrophe losses. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
3 Net of earned premium attributable to prior years.

The combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2010 was 92.8%, a decrease of 1.8 points from the same period in 2009. The decrease is primarily due to favorable property results and efficiencies associated with the Safeco acquisition.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2010 was 94.3%, a decrease of 2.4 points from the same period in 2009. The decrease in the quarter is primarily due to lower catastrophe losses in the quarter, partially offset by less favorable incurred losses attributable to prior years.

INTERNATIONAL

Overview – International

International provides insurance products and services through two distinct approaches: local businesses, which sell personal and small commercial lines products, and Liberty International Underwriters ("LIU") which sells specialty commercial lines worldwide. International's local business operations consist of local insurance operations selling property, casualty, health and life insurance products (primarily auto) to individuals and businesses in countries with a large and growing middle class. In Latin America, International operates in Venezuela, Argentina, Colombia, Brazil and Chile. In Asia, International writes business in Singapore, Thailand, Vietnam and China (including Hong Kong). In Europe, International operates in Spain, Portugal, Turkey and Poland. LIU writes casualty, specialty casualty, marine, energy, construction, aviation and property coverages through offices in Asia, Australia, Europe, the Middle East, North America and Latin America. LIU, through its Lloyd's Syndicate 4472, also provides multi-line insurance and reinsurance, including property catastrophe reinsurance, on a worldwide basis.

International net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
International Local Businesses Total	$1,011	$1,019	(0.8%)
- Latin America	658	679	(3.1)
- Europe	285	278	2.5
- Asia	68	62	9.7
Liberty International Underwriters	736	673	9.4
Total net written premium (NWP)	$1,747	$1,692	3.3%
Foreign exchange effect on growth, excluding Venezuelan devaluation			6.9%
Venezuelan devaluation			(12.9%)
Total foreign exchange effect on growth			(6.0%)
NWP growth excluding foreign exchange and Venezuelan devaluation			9.3%

International's major product lines are as follows:

(1) Local businesses: personal, primarily private passenger automobile, and commercial insurance;
(2) LIU reinsurance: includes multi-line insurance and reinsurance with an emphasis on property, treaty casualty, personal accident, aviation and reinsurance through Lloyd's Syndicate 4472;
(3) LIU inland marine program: handset protection coverage for lost or damaged devices;
(4) LIU third party: includes casualty, excess casualty, D&O, E&O, environmental impairment liability, railroad and other;
(5) LIU first party: includes marine, energy, construction, aviation and property; and
(6) LIU other: includes workers compensation, commercial automobile, surety, trade credit and crisis management.

International net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
Local businesses – private passenger auto	$587	$556	5.6%
Local businesses – all other[1]	424	463	(8.4)
LIU reinsurance	353	335	5.4
LIU inland marine program	157	163	(3.7)
LIU third party	161	110	46.4
LIU first party	56	56	-
LIU other	9	9	-
Total net written premium	$1,747	$1,692	3.3%

1 Premium related to other personal lines and commercial insurance products sold by local business operations.

Net written premium for the three months ended March 31, 2010 was $1.747 billion, an increase of $55 million over the same period in 2009. The increase in net written premium reflects organic growth in the local businesses, primarily in Latin America, from Venezuela primarily due to inflation, and Brazil, partially offset by a decline in Europe as a result of Spain's continuing economic contraction. Also contributing to the increase was LIU third party due to growth, as well as a decrease in the amount of ceded written premium due to a change in the structure of a reinsurance program. Partially offsetting the increase was approximately $101 million of foreign exchange decline driven by the Venezuelan devaluation, partially offset by the weakening of the U.S. dollar versus other foreign currencies.

Results of Operations – International

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009**	**Change**
Revenues	$1,967	$1,728	13.8%
PTOI before catastrophes and net incurred losses attributable to prior years	$77	$128	(39.8%)
Catastrophes[2]	(18)	(4)	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[3]	(6)	(2)	200%
Pre-tax operating income	$53	$122	(56.6%)

1 Effective January 1, 2010, the Venezuelan operations began applying hyper-inflationary accounting, utilizing the U.S. dollar as the functional currency.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium attributable to prior years of ($1) million for the three months ended March 31, 2010 and 2009.

PTOI for the three months ended March 31, 2010 was $53 million, a decrease of $69 million from the same period in 2009. The decrease reflects increased loss activity, primarily in LIU due to the Chilean earthquake, as well as select countries within Latin America and Europe, partially offset by $14 million of PTOI associated with the impact of Venezuelan devaluation.

Revenues for the three months ended March 31, 2010 were $1.967 billion, an increase of $239 million over the same period in 2009. The primary components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2010 was $1.776 billion, an increase of $240 million over the same period in 2009. The increase reflects the organic growth in net written premium in the latter half of 2009 and in the first quarter of 2010, partially offset by the Venezuelan devaluation. The increase also reflects the weakening of the U.S. dollar versus foreign currencies (approximately $60 million).

Net investment income for the three months ended March 31, 2010 was $143 million, a decrease of $5 million from the same period in 2009. The decrease was primarily due to the Venezuelan devaluation, and to a lesser extent, the impact of a decline in yield, partially offset by an increase associated with a higher invested asset base.

Claims, benefits and expenses for the three months ended March 31, 2010 were $1.895 billion, an increase of $297 million over the same period in 2009. The increase reflects higher current year claims and claims adjustment expenses primarily driven by the Chilean earthquake, organic growth in select Latin American countries and weather-related losses in Spain, partially offset by Venezuela due to devaluation. The foreign exchange loss, primarily the result of the Venezuelan devaluation, contributed approximately $100 million to the increase in the quarter.

	Three Months Ended March 31,		
INTERNATIONAL	**2010[1]**	**2009**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	74.0%	69.2%	4.8
Underwriting expense ratio	30.6	31.0	(0.4)
Dividend ratio	-	-	-
Subtotal	104.6	100.2	4.4
Catastrophes[2]	1.1	0.3	0.8
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	0.3	0.1	0.2
Total combined ratio	106.0%	100.6%	5.4

1 2010 combined ratio has been adjusted to exclude the impact of the Venezuelan devaluation for comparative purposes.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The International combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2010 was 104.6%, an increase of 4.4 points over the same period in 2009. The increase in the claims and claim adjustment expense ratio primarily reflects the impact in the Lloyd's Syndicate 4472 of the Chilean earthquake, and to a lesser extent, weather-related losses in Spain. The increase was slightly offset by a decrease in the underwriting expense ratio primarily due to lower commission expense resulting from a change in the structure of certain reinsurance programs within LIU's inland marine and third party businesses.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2010 was 106.0%, an increase of 5.4 points over the same period in 2009. The increase reflects the previously mentioned changes in the combined ratio components,

an increase in catastrophe losses associated with the Chilean earthquake on the local businesses, and an increase in the amount of net unfavorable incurred loss development attributable to the prior years.

PERSONAL MARKETS

Overview – Personal Markets

Personal Markets sells automobile, homeowners and other types of property and casualty insurance coverage, as well as a wide range of life and annuity products, to individuals in the United States. Products are distributed through approximately 1,950 licensed captive sales representatives, approximately 500 licensed telesales counselors, third-party producers and the Internet. Personal Markets' largest source of new business is through its more than 12,500 sponsored affinity groups (including employers, professional associations and alumni associations, credit unions, and other partnerships).

Personal Markets net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
Private passenger automobile	$1,025	$942	8.8%
Homeowners and other	473	420	12.6
Individual life	74	61	21.3
Total net written premium	$1,572	$1,423	10.5%

Net written premium for the three months ended March 31, 2010 was $1.572 billion, an increase of $149 million over the same period in 2009.

Private passenger automobile net written premium for the three months ended March 31, 2010 was $1.025 billion, an increase of $83 million over the same period in 2009. The increase reflects 4.0% policies in-force growth due to strong retention and new business policy growth as well as rate increases.

Homeowners and other net written premium for the three months ended March 31, 2010 was $473 million, an increase of $53 million over the same period in 2009. The increase reflects 7.3% homeowners policies in-force growth primarily due to strong retention and new business policy growth, as well as rate increases. Approximately one point of net written premium growth is attributable to the ongoing GEICO relationship, which allows GEICO to offer the Company's homeowners products to its automobile prospects and customers. These strong results were achieved while coastal management initiatives reduced the business unit's coastal exposure from the prior year.

Individual life net written premium for the three months ended March 31, 2010 was $74 million, an increase of $13 million over the same period in 2009. The increase reflects higher structured settlement sales.

Results of Operations – Personal Markets

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
Revenues	$1,823	$1,671	9.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$256	$222	15.3%
Catastrophes:	(135)	(102)	32.4%
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	7	18	(61.1%)
Pre-tax operating income	$128	$138	(7.2%)

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

PTOI for the three months ended March 31, 2010 was $128 million, a decrease of $10 million from the same period in 2009. The decrease in the quarter was primarily attributable to increased catastrophe losses as well as higher general expenses. These unfavorable results were partially offset by increased revenue due to higher net premiums.

Revenues for the three months ended March 31, 2010 were $1.823 billion, an increase of $152 million over the same period in 2009. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three months ended March 31, 2010 was $1.589 billion, an increase of $111 million over the same period in 2009. The increase reflects the earned premium associated with the changes in net written premium for both automobile and homeowners lines of business in 2009 and 2010, and an increase in sales of structured settlement products in individual life.

Net investment income for the three months ended March 31, 2010 was $192 million, an increase of $16 million over the same period in 2009. The increase reflects a higher invested asset base due to the continued investment of cash flow from operations.

Claims, benefits and expenses for the three months ended March 31, 2010 were $1.694 billion, an increase of $148 million over the same period in 2009. The increase primarily reflects business growth, general cost increases, and increased advertising expenditures. The increase is also attributable to $21 million of favorable development on the September 2008 hurricanes in the first quarter of 2009 that did not recur in 2010 as well as less favorable prior year loss development.

PERSONAL MARKETS	Three Months Ended March 31, 2010	2009	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	64.9%	65.3%	(0.4)
Underwriting expense ratio	25.1	24.6	0.5
Dividend ratio	-	-	-
Subtotal	90.0	89.9	0.1
Catastrophes[1]	8.9	7.2	1.7
Net incurred losses attributable to prior years:			
- Asbestos & environmental			
- All other	(0.5)	(1.3)	0.8
Total combined ratio	98.4%	95.8%	2.6

1 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Personal Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2010 was 90.0%, an increase of 0.1 points over the same period in 2009. The decrease in the claims and claim adjustment expense ratio is primarily related to favorable trends in the auto physical damage line of business. The increase in the underwriting expense ratio is due to increased advertising expenditures. This advertising increase was partially offset by a lower Prudential Financial, Inc. ("PruPac") profit share expense as a result of higher catastrophes.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2010 was 98.4%, an increase of 2.6 points over the same period in 2009. The increase reflects the changes previously discussed, favorable loss development on the September 2008 hurricanes in the first quarter of 2009 that did not recur, and less favorable prior year loss development.

COMMERCIAL MARKETS

Overview – Commercial Markets

Commercial Markets offers a wide array of commercial insurance coverages to mid-sized and large businesses (with an annual cost of risk of $150,000 or more) through independent agents, brokers and benefit consultants throughout the United States. The Commercial Markets business unit is organized into separate marketing and underwriting groups, each of which focuses on a particular customer base or product grouping to provide tailored products and services that specifically address customers' needs. The Commercial Markets coverages include workers compensation, commercial automobile, general liability (including product liability), group disability and life, commercial multiple peril and fire, assumed voluntary reinsurance, and a variety of other coverages. The Company is also a servicing carrier for state based workers compensation involuntary market pools.

On January 22, 2009, Commercial Markets established Middle Market, a new market segment that combined the Business Market and Wausau Insurance market segments. As part of this change, Commercial Markets eliminated its direct distribution channel to its mid-sized commercial lines customers and retired the Wausau brand. Middle Market provides Liberty Mutual products and services exclusively through independent agents and brokers. As part of this change, the Company completed the sale of the policy renewal rights of the existing directly distributed Business Market and Wausau Insurance policyholders in various portions to three nationally recognized brokerage firms on February 27, 2009.

Commercial Markets net written premium by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**
Middle Market	$526	$581	(9.5%)
National Market	364	379	(4.0)
Group Benefits	171	147	16.3
Summit[1]	160	181	(11.6)
Specialty Lines	91	115	(20.9)
Liberty Mutual Property	55	80	(31.3)
Other Markets	111	120	(7.5)
Total net written premium	$1,478	$1,603	(7.8%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.

Commercial Markets net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**
Workers compensation	$882	$1,013	(12.9%)
Group disability and life	171	147	16.3
General liability	128	139	(7.9)
Commercial automobile	120	106	13.2
Commercial multiple peril / Fire	95	107	(11.2)
Assumed voluntary reinsurance	42	43	(2.3)
Other	40	48	(16.7)
Total net written premium	$1,478	$1,603	(7.8%)

1 Effective January 1, 2010, net written premium associated with Summit, previously included in Agency Markets, is included in Commercial Markets. The prior periods have been restated to reflect this change.

Net written premium for the three months ended March 31, 2010 was $1.478 billion, a decrease of $125 million from the same period in 2009. The decrease primarily reflects a decrease in workers compensation premium due to a decrease in exposures and audit premium in the Middle Market, National Market, Summit, and Specialty Lines segments due to weak economic conditions, a mandatory rate decrease in Florida primarily impacting Summit, and a decline in assumed premium from the state based involuntary market pools included in the Other Markets segment. Also contributing to the decrease is lower retention of commercial multiple peril/fire premium in the Liberty Mutual Property segment due to competitive market conditions and catastrophe exposure reductions. Partially offsetting the decrease in the quarter was an increase in group disability and life business due to a broader penetration of those markets and commercial automobile due to the growth of new business in the Middle Market segment.

Results of Operations – Commercial Markets

	Three Months Ended March 31,		
$ in Millions	**2010[1]**	**2009[1]**	**Change**
Revenues	$1,604	$1,762	(9.0%)
PTOI before catastrophes and net incurred losses attributable to prior years	$83	$123	(32.5%)
Catastrophes[2]	(15)	(6)	150.0
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other[3]	9	20	(55.0)
Pre-tax operating income	$77	$137	(43.8%)

1 Effective January 1, 2010, the Summit results of operations, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium attributable to prior years of $3 million and $1 million for the three months ended March 31, 2010 and 2009, respectively. Net of amortization of deferred gains on retroactive reinsurance of $13 million and $12 million for the three months ended March 31, 2010 and 2009, respectively.

PTOI for the three months ended March 31, 2010 was $77 million, a decrease of $60 million from the same period in 2009. The decrease in PTOI reflects a decline in earned premium that outpaced expense reductions, deteriorating loss trends, and increased catastrophe and non-catastrophe property losses partially offset by favorable net investment income.

Revenues for the three months ended March 31, 2010 were $1.604 billion, a decrease of $158 million from the same period in 2009. The major components of revenues are net premium earned, net investment income and fee and other revenues.

Net premium earned for the three months ended March 31, 2010 was $1.307 billion, a decrease of $150 million from the same period in 2009. The decrease in earned premium reflects the decrease in net written premium during 2009 and the first quarter of 2010.

Net investment income for the three months ended March 31, 2010 was $230 million, an increase of $4 million over the same period in 2009. The increase primarily reflects a higher invested asset base due to the continued investment of cash flow from operations.

Fee and other revenues for the three months ended March 31, 2010 were $67 million, a decrease of $12 million from the same period in 2009. The decrease primarily reflects lower commission revenues from the Company's servicing carrier operations due to lower involuntary market premium volume. As a servicing carrier, the Company receives fee income for performing certain underwriting, claims and administrative services for all participating involuntary pool members. Also contributing to the decrease was lower fee revenue from Helmsman Insurance Agency as a result of the Middle Market re-organization.

Claims, benefits, and expenses for the three months ended March 31, 2010 were $1.527 billion, a decrease of $98 million from the same period in 2009. The decrease primarily reflects a decline in non-catastrophe losses due to a decline in premium volumes. Compensation related expenses have decreased primarily as a result of the change in the Middle Market distribution structure. In addition, a decline in exposures and net written premium resulted in decreases in premium tax and claim adjustment expenses. Partially offsetting these decreases were increases in commission expense due to the change in the Middle Market distribution structure, prior accident year losses due to favorable development in the involuntary market workers compensation pools in 2009 that did not recur, and catastrophe property losses.

	Three Months Ended March 31,		
COMMERCIAL MARKETS	**2010**[1]	**2009**[1]	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	84.3%	83.3%	1.0
Underwriting expense ratio	24.2	20.9	3.3
Dividend ratio	0.7	0.9	(0.2)
Subtotal	109.2	105.1	4.1
Catastrophes[2]	1.3	0.4	0.9
Net incurred losses attributable to prior years:			
- Asbestos & environmental	-	-	-
- All other	(0.8)	(1.5)	0.7
Total combined ratio	109.7%	104.0%	5.7

1 Effective January 1, 2010, results associated with Summit, previously included in Agency Markets, are included in Commercial Markets. The prior periods have been restated to reflect this change.

2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's assumed voluntary reinsurance except for losses related to the events of September 11, 2001, the 2004 U.S. Hurricanes, the 2005 U.S. Hurricanes and the September 2008 Hurricanes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

The Commercial Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2010 was 109.2%, an increase of 4.1 points over the same period in 2009. The increase in the claims and claim adjustment expense ratio primarily reflects an increase in assumed voluntary reinsurance losses due to the Chilean earthquake and the European winter storm Xynthia and the impact of deteriorating loss trends. The increase in the underwriting expense ratio primarily reflects an increase in the commission ratio due to the change in the Middle Market distribution structure, partially offset by a decrease in loss based assessments.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2010 was 109.7%, an increase of 5.7 points over the same period in 2009. The increase reflects the changes in the combined ratio previously discussed as well as higher catastrophe losses and less favorable net incurred losses attributable to prior years driven by favorable development in 2009 related to assumed voluntary reinsurance and the involuntary market workers compensation pools that did not recur.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

- Certain internal discontinued operations composed of: asbestos, environmental, and toxic tort exposures, the run-off of certain Agency Markets business, the run-off of the California workers compensation business of Golden Eagle Insurance Corporation, certain distribution channels related to PruPac, pre-2004 Commercial Markets assumed voluntary reinsurance business and Commercial Markets pre-2005 fully insured workers compensation business.

- Interest expense on the Company's outstanding long–term debt.

- Certain risks of its SBUs that the Company reinsures as part of its risk management program.

- The Company reports its written premiums on workers compensation contracts on the "booked as billed" method. Commercial Markets reports workers compensation written premiums on the "booked at inception" method. Corporate and Other results reflect the difference between these two methods.

- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims. In the fourth quarter of 2009, the Company changed its method of accounting for discounting from tabular discount rates based on insurance regulations as approved by the respective jurisdictions to a risk-free discount rate. Commercial Markets reports their discount based on a tabular rate of 4%. Corporate and Other results reflect the difference between the tabular and risk-free rate.

- Costs associated with certain long-term compensation plans and other corporate costs not allocated to the SBUs.

- For presentation in this MD&A, domestic property and casualty operations' investment income is allocated to the business units based on planned ordinary investment income returns by investment category. Investments are allocated to the business units in an amount equal to their respective liabilities net of insurance assets (reinsurance, premiums receivable, etc.) plus allocated statutory policyholders' surplus. The difference between allocated net investment income and actual net investment income is included in Corporate and Other.

- Income (loss) related to limited partnership and limited liability company investments.

- Fee and other revenues include revenues from the Company's wholly owned subsidiary, Liberty Energy, and lease and other income on investment properties. Liberty Energy generates revenue from the production and sale of oil and gas.

Corporate and Other net written premium by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009**	**Change**
Reinsurance, net	($57)	($173)	(67.1%)
Workers compensation[1]	(46)	(45)	2.2%
Other	2	-	NM
Total net written premium	($101)	($218)	(53.7%)

[1] Booked as billed adjustment
NM = Not Meaningful

Net written premium for the three months ended March 31, 2010 was ($101) million, an increase of $117 million over the same period in 2009. The change is primarily attributable to a decrease in externally ceded reinsurance. In the fourth quarter of 2008, the Company entered into a reinsurance contract where the Company ceded a pro rata portion of consolidated U.S. direct written homeowners premium. In the fourth quarter of 2009, the Company did not renew a portion of the homeowners quota share reinsurance treaty, resulting in a decrease in ceded premium in the first quarter of 2010 from the same period in 2009. The impact of this contract on net written premium was $89 million in the quarter.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2010**	**2009[1]**	**Change**
Revenues	$14	($631)	NM
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years and private equity income (loss):	($189)	($251)	(24.7%)
Catastrophes[2,3]	(101)	(8)	NM
Net incurred losses attributable to prior years:			
- Asbestos & environmental	(3)	(1)	200.0%
- All other[4]	3	(2)	NM
Pre-tax operating loss before private equity income (loss)	(290)	(262)	10.7%
Private equity income (loss) [5]	84	(373)	NM
Pre-tax operating loss	($206)	($635)	(67.6%)

1 2009 results have been restated for the retrospective accounting change related to the change in the discount rate applied to the long-term indemnity portion of the settled unpaid workers compensation claims.
2 Catastrophes include all current and prior year catastrophe losses including assessments from TWIA and exclude losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472). Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums of $7 and $2 million for the three months ended March 31, 2010 and 2009, respectively.
3 Catastrophe losses ceded under the homeowners quota share treaty are included to the extent that the ceded combined ratio exceeds 100.0%.
4 Net of amortization of deferred gains on retroactive reinsurance of $5 million for the three months ended March 31, 2010 and 2009.
5 Private equity income (loss) is included in net investment income in the accompanying statements of income.
NM = Not Meaningful

Pre-tax operating loss for the three months ended March 31, 2010 was $206 million, a decrease of $429 million from the same period in 2009. The decrease is primarily driven by the increase in limited partnerships' and limited liability companies' income as a result of improved market valuations from the same period in 2009 and favorable run-off reserve development versus unfavorable development in the same period of 2009, partially offset by internally assumed losses on the Company's reinsurance program primarily related to the Chilean earthquake.

Revenues for the three months ended March 31, 2010 were $14 million, an increase of $645 million over the same period in 2009. The major components of revenues include net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three months ended March 31, 2010 was ($113) million, an increase of $126 million from the same period in 2009. The increase is primarily driven by less ceded premium related to the homeowners quota share treaty and the restructuring of other treaties in the Company's reinsurance program.

Net investment income for the three months ended March 31, 2010 was $27 million, versus a net investment loss of $415 million in the same period in 2009. The increase reflects the increase in limited partnerships' and limited liability companies' income as a result of improved market valuations from the same period in 2009 and continued investment of cash flows from operations, offset by slightly lower investment yields and higher investment expenses attributable to variable incentive compensation.

Fee and other revenues for the three months ended March 31, 2010 were $25 million, an increase of $13 million over the same period in 2009. The increase primarily reflects higher oil and gas revenues due to higher prices and increased production.

Claims, benefits and expenses for the three months ended March 31, 2010 were $145 million, an increase of $152 million over the same period in 2009. The increase is primarily driven by a decrease in ceded losses and expenses associated with the homeowners quota share treaty, the restructuring of treaties in the Company's reinsurance program, and internally assumed catastrophe losses related to the Chilean earthquake, partially offset by favorable run-off reserve development versus unfavorable development in the same period of 2009 and lower interest expense as a result of the extinguishment of debt in 2009 and maturities of debt in 2010.

INVESTMENTS

General

The Company's investment strategy seeks long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. The Company selects and monitors investments to balance the goals of safety, stability, liquidity, growth and after-tax total return with its need to comply with regulatory investment requirements. A relatively safe and stable income stream is achieved by maintaining a broadly based portfolio of investment grade bonds. These holdings are supplemented by investments in additional asset types with the objective of further enhancing the portfolio's diversification and expected returns. These additional asset types include commercial mortgages and other real estate financing investments, non-investment grade bonds, including syndicated bank loans, common and preferred stock, private equity and direct investments in energy ventures. Risk management is accomplished through asset liability management (including both interest rate risk and foreign currency risk), diversification, credit limits and a careful analytic review of each investment decision.

The Company's investment policy and strategy are reviewed and approved by the Investment Committee of its Board of Directors, which meets on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, the Company has an experienced team of investment personnel responsible for managing and administering the investment portfolios of its domestic and foreign insurance operations.

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of March 31, 2010 and December 31, 2009:

$ in Millions	**As of March 31, 2010**		**As of December 31, 2009**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$56,581	85.2%	$56,439	84.5%
Equity securities, available for sale, at fair value	1,226	1.8	1,188	1.7
Limited partnerships and limited liability companies	2,577	3.9	2,455	3.7
Commercial mortgage loans	1,133	1.7	1,121	1.7
Short-term investments	381	0.6	575	0.9
Other investments	152	0.2	164	0.2
Cash and cash equivalents	4,386	6.6	4,847	7.3
Total Invested Assets	$66,436	100.0%	$66,789	100.0%

Total invested assets as of March 31, 2010 were $66.436 billion, a decrease of $353 million or 0.5% from December 31, 2009. The decrease reflects a decline in cash collateral and short term assets held in connection with the Company's security lending program of $456 million and a valuation decline from foreign exchange largely driven by the Venezuelan devaluation. Partially offsetting these decreases were increases attributable to unrealized gains due to a decrease in credit spreads and an increase in the valuations of private limited partnerships.

Fixed maturities as of March 31, 2010 were $56.581 billion, an increase of $142 million or 0.3% over December 31, 2009. The increase reflects market value increases due to a decrease in credit spreads partially offset by valuation declines from foreign exchange as discussed above.

Equity securities available for sale as of March 31, 2010 were $1.226 billion ($707 million common stock and $519 million preferred stock) versus $1.188 billion as of December 31, 2009 ($688 million common stock and $500 million preferred stock), an increase of $38 million or 3.2% over December 31, 2009. Of

the $707 million of common stock at March 31, 2010, $279 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities available for sale primarily reflects market appreciation.

Investments in limited partnerships and limited liability companies as of March 31, 2010 were $2.577 billion, an increase of $122 million or 5.0% over December 31, 2009. These investments consist of traditional private equity partnerships of $1.607 billion, other partnerships (primarily energy) of $632 million, and real estate partnerships of $338 million. The increase primarily reflects an increase in market value and new investments. The Company's investments in limited partnerships and limited liability companies are long-term in nature and highly illiquid. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

Commercial mortgage loans as of March 31, 2010 were $1.133 billion (net of $8 million of loan loss reserves or 0.7% of the outstanding loan portfolio), an increase of $12 million or 1.1% over December 31, 2009. The increase primarily reflects $24 million of new loans, $10 million in principal repayments and an increase of $2 million to the loan loss reserves. The entire commercial loan portfolio is U.S. based. As of March 31, 2010, the average total loan size was $1.4 million and the average loan participation size was $0.5 million. The number of loans in the portfolio increased from 2,469 at December 31, 2009 to 2,541 at March 31, 2010. Approximately 91% of the loans are full or partial recourse to borrowers.

Short term investments as of March 31, 2010 were $381 million, a decrease of $194 million or 33.7% from December 31, 2009. This decrease reflects a decline in short term assets held as collateral in connection with the Company's security lending program and the maturity of assets re-invested in cash equivalents and fixed maturity assets.

Cash and cash equivalents as of March 31, 2010 were $4.386 billion, a decrease of $461 million or 9.5% from December 31, 2009. This decrease reflects a decline in cash collateral held in connection with the Company's security lending program.

Regarding fair value measurements, as of March 31, 2010, excluding separate accounts and other assets, the Company reflected $2.217 billion as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of March 31, 2010, the Company reported $54.932 billion as level 2, consisting primarily of various fixed maturity securities. Finally, the Company reported $1.157 billion as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily available.

As of March 31, 2010, the Company had unfunded commitments in traditional private equity partnerships, real estate, and energy and other of $1.097 billion, $553 million and $1.218 billion, respectively. As of March 31, 2010, the Company had commitments to purchase various residential mortgage-backed securities at a cost of $286 million (fair value of $287 million) and various corporate and municipal securities at a cost and fair value of $66 million.

As of March 31, 2010, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 1% of invested assets.

The following table summarizes the Company's available for sale portfolio by security type as of March 31, 2010 and December 31, 2009:

March 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,373	$154	($6)	$2,521
Mortgage and asset-backed securities:				
Residential	9,948	493	(116)	10,325
Commercial	2,407	89	(22)	2,474
Other mortgage and ABS securities	1,782	91	(17)	1,856
U.S. state and municipal	14,209	669	(96)	14,782
Corporate and other	20,185	1,071	(266)	20,990
Foreign government securities	3,565	125	(57)	3,633
Total fixed maturities	54,469	2,692	(580)	56,581
Common stock	515	215	(23)	707
Preferred stock	551	39	(71)	519
Total equity securities	1,066	254	(94)	1,226
Total securities available for sale	$55,535	$2,946	($674)	$57,807

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,324	$149	($8)	$2,465
Mortgage and asset-backed securities:				
Residential	10,725	404	(140)	10,989
Commercial	2,163	46	(49)	2,160
Other mortgage and ABS securities	1,849	80	(27)	1,902
U.S. state and municipal	14,910	716	(116)	15,510
Corporate and other	19,134	933	(384)	19,683
Foreign government securities	3,684	128	(82)	3,730
Total fixed maturities	54,789	2,456	(806)	56,439
Common stock	525	196	(33)	688
Preferred stock	552	34	(86)	500
Total equity securities	1,077	230	(119)	1,188
Total securities available for sale	$55,866	$2,686	($925)	$57,627

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2010:

$ in Millions	**As of March 31, 2010**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,497	$-	$-	$-	$-	$-	$1,497	10.2%
GNMA residential mortgage	3,293	-	-	-	-	-	3,293	22.5
FNMA residential mortgage	2,934	-	-	-	-	-	2,934	20.0
FHLMC residential mortgage	3,428	-	-	-	-	-	3,428	23.4
Prime residential mortgage	207	-	9	24	21	163	424	2.9
Alt-A residential mortgage	63	4	-	-	13	114	194	1.3
Sub-prime residential mortgage	6	4	9	9	10	14	52	0.4
Commercial mortgage backed securities	2,204	154	59	57	-	-	2,474	16.9
Non-mortgage asset backed securities	248	27	33	26	18	7	359	2.4
Total	$13,880	$189	$110	$116	$62	$298	$14,655	100%
% of Total	94.7%	1.3%	0.8%	0.8%	0.4%	2.0%	100.0%	

More than 76% of the Company's securitized portfolio is explicitly backed by the U.S. government (GNMA, FDIC, and SBA) or by government-sponsored entities (FHLMC and FNMA). Over 94% of the mortgage and asset-backed holdings are rated AAA. The commercial mortgage backed securities portfolio is well diversified and of high quality with over 95% rated AA or above, approximately 18% of the underlying collateral having been defeased with U.S. Treasuries, and less than 10% of the holdings backed by 2006 to 2008 vintage transactions.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2010 and December 31, 2009:

$ in Millions	**As of March 31, 2010**		**As of December 31, 2009**	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$24,069	42.5%	$24,896	44.2%
AA+, AA, AA-	9,861	17.4	10,185	18.0
A+, A, A-	10,337	18.3	10,206	18.1
BBB+, BBB, BBB-	7,353	13.0	6,599	11.7
BB+, BB, BB-	2,302	4.1	2,089	3.7
B+, B, B-	1,876	3.3	1,767	3.1
CCC or lower	783	1.4	697	1.2
Total fixed maturities	$56,581	100%	$56,439	100%

[1]For purposes of this disclosure, credit quality is primarily based upon Standard & Poor's ratings.

The Company's allocation to investment grade securities decreased slightly to 91.2% at March 31, 2010 from 92% at December 31, 2009. The Company had 8.8% of its fixed maturity securities invested in non-investment grade securities at March 31, 2010, an increase of 0.8% primarily due to significant tightening of investment grade credit spreads, downgrades on investment grade securities and a shift in the Company's tactical allocation. Overall, the average credit quality rating stands at AA- as of March 31, 2010.

The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance companies.

The following table summarizes the Company's allocation of fixed maturities by maturity date as of March 31, 2010 and December 31, 2009:

$ in Millions	As of March 31, 2010		As of December 31, 2009	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
1 year or less	$2,730	4.8%	$2,556	4.5%
Over 1 year through 5 years	13,232	23.4	12,678	22.5
Over 5 years through 10 years	11,444	20.2	10,633	18.8
Over 10 years	14,520	25.7	15,521	27.5
Mortgage and asset-backed securities	14,655	25.9	15,051	26.7
Total fixed maturities	$56,581	100%	$56,439	100%

During the first quarter of 2010, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company continued to shorten the average duration of its investment portfolio.

Net Investment Income

The following table summarizes the Company's net investment income for the three months ended March 31, 2010 and 2009:

$ in Millions	Three Months Ended March 31,	
Net Investment Income	**2010**	**2009**
Taxable interest income	$586	$566
Tax-exempt interest income	153	153
Dividends	10	9
Limited partnerships and limited liability companies	84	(373)
Commercial mortgage loans	18	17
Other investment income	-	4
Gross investment income	851	376
Investment expenses	(41)	(39)
Net investment income	$810	$337

Net investment income for the three months ended March 31, 2010 was $810 million, an increase of $473 million over the same period in 2009. This increase reflects the increase in limited partnerships' and limited liability companies' income of $457 million as a result of improved market valuations from the same period in 2009 and continued investment of cash flows from operations, offset by slightly lower investment yields and higher investment expenses attributable to variable incentive compensation.

Net Realized Investment Gains (Losses)

The following tables summarize the Company's net realized investment gains (losses) for the three months ended March 31, 2010 and 2009:

$ in Millions Net Realized Investment Gains (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended March 31, 2010:				
Fixed maturities	$97	($7)	$-	$90
Common and preferred stock	8	-	-	8
Other	5	(8)	-	(3)
Total	$110	($15)	$-	$95
Three Months Ended March 31, 2009:				
Fixed maturities	($24)	($75)	$-	($99)
Common and preferred stock	78	(33)	-	45
Other	40	(5)	25	60
Total	$94	($113)	$25	$6

$ in Millions	Three Months Ended March 31,	
Components of Net Realized Investment Gains	**2010**	**2009**
Fixed maturities:		
Gross realized gains	$104	$24
Gross realized losses	(14)	(123)
Equities:		
Gross realized gains	8	95
Gross realized losses	-	(50)
Other:		
Gross realized gains	8	66
Gross realized losses	(11)	(6)
Total net realized investment gains	$95	$6

Net realized investment gains for the three months ended March 31, 2010 were $95 million, an increase of $89 million over the same period in 2009. The increase primarily reflects a decrease in impairment losses recorded in 2010 on fixed maturity and equity investments related to securities deemed to be other than temporarily impaired due to the improving market conditions. Fixed maturity gains for the three months ended March 31, 2010 reflect gains recognized from the sale of securities related to portfolio re-alignment compared to equity gains recognized for the three months ended March 31, 2009 related to the Company's decision to reduce its equity exposure. Other realized gains for the three months ended March 31, 2009 that did not recur in 2010 include $25 million related to equity swap derivative contracts that terminated in January 2009.

Effective January 1, 2009, the Company adopted new guidance for accounting for other-than-temporary impairments, as codified in FASB Accounting Standards Codification ("ASC") 320, *Investments – Debt and Equity Securities.* See Footnote 1 to the Unaudited Financial Statements as of and for the three months ended March 31, 2010 for details. In the first quarter of 2009, the Company recorded a cumulative effect adjustment, net of income taxes, in the amount of $28 million. The adjustment was an increase to

policyholders' unassigned equity and a corresponding decrease to accumulated other comprehensive income.

The following table summarizes the Company's unrealized losses and fair value by security type by duration of potential impairment as of March 31, 2010:

$ in Millions	**Less Than 12 Months**		**Greater Than 12 Months**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($3)	$267	($3)	$21
Mortgage and asset-backed securities:				
Residential	(5)	693	(111)	432
Commercial	(1)	134	(21)	228
Other mortgage and ABS securities	(2)	157	(15)	48
U.S. state and municipal	(25)	2,757	(71)	547
Corporate and other	(23)	1,714	(243)	2,021
Foreign government securities	(28)	683	(29)	253
Total fixed maturities	(87)	6,405	(493)	3,550
Common stock	(1)	12	(22)	118
Preferred stock	(1)	76	(70)	322
Total equities	(2)	88	(92)	440
Total	($89)	$6,493	($585)	$3,990

Unrealized losses decreased from $925 million as of December 31, 2009 to $674 million as of March 31, 2010 primarily due to a decrease in credit spreads. Unrealized losses less than 12 months decreased from $151 million at December 31, 2009 to $89 million as of March 31, 2010, a decrease of $62 million. Unrealized losses greater than 12 months decreased from $774 million as of December 31, 2009 to $585 million as of March 31, 2010 and accounted for $189 million of the overall decrease in unrealized losses. Included in the $585 million of unrealized losses greater than twelve months were $291 million of unrealized losses on securities that had been in an unrealized loss position of 10% or greater for more than twelve months. The Company monitors the difference between the amortized cost and estimated fair value of debt securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed income securities before they recover their fair value.

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be "other-than-temporary," and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value. As a result of the Company's quarterly other-than-temporary impairment review, total impairment losses for the three months ended March 31, 2010 were $15 million, a decrease of $98 million from the same period in 2009.

For the three months ended March 31, 2010, the Company recorded $7 million of fixed maturity impairment losses and less than $1 million in non-credit impairments. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of March 31, 2010 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The gross unrealized losses recorded on equity securities at March 31, 2010 resulted primarily from decreases in quoted market values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. As of March 31, 2010, the Company has concluded that the gross unrealized losses of equity securities as of March 31, 2010 are temporary.

LIQUIDITY AND CAPITAL RESOURCES

General

The liquidity requirements of the insurance subsidiaries are met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims, claim adjustment expenses and operating expenses (underwriting and corporate benefit costs). There are certain cash outflows such as catastrophes and continued settlements of asbestos reserves that are unpredictable in nature and could create increased liquidity needs. The Company believes that the insurance subsidiaries' future business liquidity needs will be met from all the above sources.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of March 31, 2010 (including cash and cash equivalents) totaled $66.436 billion.

Short-term debt and current maturities of long-term debt outstanding as of March 31, 2010 and December 31, 2009 were as follows:

$ in Millions	**As of March 31, 2010**	**As of December 31, 2009**
Commercial paper	$-	$-
Revolving credit facilities	-	4
Current maturities of long-term debt	1	301
Total short-term debt and current maturities of long-term debt obligations	$1	$305

The decrease in short-term debt primarily reflects a decrease in current maturities of long-term debt related to the redemption of the 4.875% notes that matured in February 2010.

Long-term debt outstanding as of March 31, 2010 and December 31, 2009 was as follows:

$ in Millions	As of March 31, 2010	As of December 31, 2009
7.25% Notes, due 2012	$204	$204
8.00% Notes, due 2013	260	260
7.86% Medium term notes, due 2013	25	25
5.75% Notes, due 2014	500	500
7.30% Notes, due 2014	200	200
5.588% Mortgage loan due 2015	49	49
6.70% Notes, due 2016	249	249
7.00% Subordinated notes, due 2067[1]	300	300
8.50% Surplus notes, due 2025	140	140
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	440	440
7.80% Subordinated notes, due 2087[2]	700	700
10.75% Subordinated notes, due 2088[3]	1,250	1,250
7.697% Surplus notes, due 2097	435	435
Subtotal	5,684	5,684
Unamortized discount	(49)	(49)
Total long-term debt excluding current maturities	$5,635	$5,635

[1] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[2] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[3] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market conditions. Debt repurchases may be done through open market or other appropriate transactions. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

Debt Transactions and In-force Credit Facilities

On April 1, 2010, Peerless Insurance Company ("PIC") received approval of its application for membership in the Federal Home Loan Bank of Boston. This membership provides the Company with access to a secured asset-based borrowing with loan maturities of up to 20 years. To date, no funds have been borrowed.

On March 26, 2010, Liberty Mutual Insurance Company ("LMIC") entered into a $750 million three-year committed repurchase agreement facility. To date, no funds have been borrowed under the facility. In connection with the new facility, LMIC terminated its existing $750 million 364-day committed repurchase agreement facility.

On March 26, 2010, PIC entered into a $250 million three-year committed repurchase agreement facility. The repurchase facility is guaranteed by LMIC. To date, no funds have been borrowed under the facility.

On December 14, 2009, Liberty Mutual Group Inc. ("LMGI") entered into a three-year $400 million unsecured revolving credit facility which terminates on December 14, 2012. To date, no funds have been borrowed under the facility. In connection with the new facility, LMGI terminated its $250 million three-year unsecured revolving credit facility and its two revolving credit facilities totaling $750 million.

The Company places commercial paper through a program issued by LMGI and guaranteed by LMIC. Effective December 14, 2009, the $1 billion commercial paper program was reduced to $400 million and is backed by the three-year $400 million unsecured revolving credit facility.

On December 10, 2009, Berkeley/St. James Real Estate LLC, a wholly-owned affiliate of the Company, entered into a five-year $50 million mortgage loan secured by the Company's headquarters located at 175 Berkeley Street and 30 St. James Avenue, Boston Massachusetts. The mortgage loan has limited recourse to Berkeley/St. James Real Estate LLC in certain instances and LMGI guarantees those limited recourse obligations.

On March 11, 2009, LMIC became a member of the Federal Home Loan Bank of Boston. This membership provides the Company with access to a secured asset-based borrowing with loan maturities of up to 20 years. To date, no funds have been borrowed.

On June 9, 2006, Liberty Mutual Insurance Europe Limited entered into a $20 million revolving loan facility. The facility is available to provide working capital to the Company's international operations. The revolving loan facility is guaranteed by LMIC. As of March 31, 2010, no borrowings were outstanding under the facility.

Interest Expense

Consolidated interest expense for the three months ended March 31, 2010 was $116 million, a decrease of $6 million from the same period in 2009. The decrease in the quarter reflects the redemption of the 4.875% notes at maturity and debt repurchases that occurred in 2009. As previously discussed, the Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations. Future debt repurchases may be done through open market or other appropriate transactions.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of March 31, 2010, the Company, through its downstream subsidiary LMGI, had $4.792 billion of debt outstanding, excluding discount.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate to its financial needs. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Under the insurance laws of Massachusetts, the domiciliary state of LMIC, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW"), an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively

affect LMGI's ability to pay principal and interest on its debt, as could a redomestication, merger or consolidation of LMIC, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2009) and 2010 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid**
RBC Ratios and Dividend Capacity	**2009**	**2008**	**2010**	**2010**
LMIC [3]	479%	402%	$830	$91
LMFIC	451%	501%	$92	$4
EICOW	467%	362%	$108	-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents maximum allowable dividend without prior regulatory approval in the state of domicile.
[3]Any reallocation of surplus between insurance subsidiaries could change the dividend capacity of individual companies within the group. Effective January 1, 2010, the LMIC pooling percentage decreased from 75.0% to 73.8%.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees, with annual fees estimated to be approximately $50 million.
- Investment management agreements with affiliated entities pursuant to which LMGI is entitled to recover approximately $54 million in annual expenses for investment management services performed by LMGI employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2010, LCS recorded $80 million in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S. affiliates, including international branches, was $14.658 billion and $14.704 billion at March 31, 2010, and December 31, 2009, respectively. The decrease in surplus primarily reflects unrealized gains of $69 million, a decrease in other changes in surplus of $144 million primarily related to dividends to stockholders of $95 million, and a change in non-admitted assets of $294 million, partially offset by net income of $279 million (the sum of earnings from the Company's 59 domestic insurance companies and dividends from subsidiaries).

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include:

- unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years;
- reinsurance recoverables and associated uncollectible reserves;
- impairments to the fair value of the investment portfolio;
- deferred acquisition costs;
- valuation of goodwill and intangible assets; and
- deferred income tax valuation allowance.

While the Company believes the amounts included in the consolidated financial statements reflect best estimates and appropriate assumptions, these amounts could ultimately be materially different from the amounts currently provided for in the consolidated financial statements.

Certain reclassifications have been made to the 2009 amounts to conform to the 2010 presentation.

Adoption of New Accounting Standards

Effective January 1, 2010, the Company adopted new guidance on the accounting for variable interests, as codified in ASC 810, *Consolidation*. This guidance reflects the elimination of the concept of a qualifying special-purpose entity and replaces the quantitative-based risks and rewards calculation of the previous guidance for determining which entity, if any, has a controlling financial interest in a variable interest entity. The revised guidance requires an analysis of whether an entity has (1) the power to direct the activities of an entity that most significantly impact the entity's economic performance and (2) the obligation to absorb the losses that could potentially be significant to the entity or the right to receive benefits from the entity that could potentially be significant to the entity. An entity is required to be re-evaluated as a variable interest entity when the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights to direct the activities that most significantly impact the entity's economic performance. Additional disclosures are required about an entity's involvement in variable interest entities and an ongoing assessment of whether an entity is the primary beneficiary. Additionally, in February 2010, the FASB issued Accounting Standards Update (ASU) 2010-10, *Amendments for Certain Investment Funds,* which defers the revised consolidation requirements for a reporting entity's interest in an entity (1) that has all the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies and amends the previous provisions for assessing whether fees paid to a legal entity's decision maker or service provider are variable interests. The adoption of the new guidance did not have a material impact on the Company.

Effective January 1, 2009, the Company adopted new guidance for accounting for other-than-temporary impairments, as codified in ASC 320, *Investments – Debt and Equity Securities*. This guidance amends the accounting for other-than-temporary impairment of debt securities, requires the establishment of a policy for determining when "credit losses" exist, and provides direction on determining the amount of impairment to be recognized in the statement of income. The adoption of the new guidance resulted in an

increase of $28 million (net of tax) to policyholders' unassigned equity and a corresponding decrease to accumulated comprehensive income (loss).

None of the other accounting standards adopted by the Company through the first quarter of 2010 had a material impact on the Company.

Future Adoption of New Accounting Standards

None of the accounting standards issued through the first quarter of 2010 will have a material impact on the Company. See Note 1 in the Unaudited Consolidated Financial Statements as of and for the three months ended March 31, 2010 for further discussion of the Company's policies.

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $48.704 billion and $48.355 billion as of March 31, 2010 and December 31, 2009, respectively. The increase was primarily due to business growth and losses related to the Chilean earthquake less the on-going settlement of claims.

Property-casualty insurance unpaid claims and claim adjustment expenses represent the Company's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

As information develops that varies from past experience, provides additional data, or in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Company's estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Asbestos and Environmental

The Company's asbestos and environmental (A&E) reserves for unpaid claims and claim adjustment expenses, net of reinsurance and including uncollectible reinsurance were $1.430 billion as of March 31, 2010 and $1.580 billion as of December 31, 2009, a decrease of $150 million. The decrease is primarily due to a payment on a large settlement during the period.

In the third quarter of 2009, the Company completed its biennial ground-up asbestos reserve study. The study was completed by a multi-disciplined team of internal claims, legal, reinsurance and actuarial personnel, and it included all major segments of the Company's direct, assumed, and ceded asbestos claims. As part of the internal review, potential exposures of certain policyholders were individually evaluated using the Company's proprietary stochastic model, which is consistent with published actuarial papers on asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, types of injury, state jurisdictions, legal defenses, and reinsurance potential. The remaining policyholders (those with less potential exposure) were evaluated using aggregate methods that utilized information and experience

specific to these insureds. The study resulted in an increase to reserves of $383 million. The previous comprehensive study was completed in 2007. Between comprehensive studies, the Company monitors asbestos activity to determine whether or not any adjustment to reserves is warranted. The Company completed its annual study on the environmental claims liability, resulting in immaterial adjustments to held reserves.

All A&E claims against policies issued prior to 1986 by EICOW and its affiliates are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. In addition, the Company acquired PruPac in 2003 and any increase in A&E reserves is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial, Inc.

The estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties; the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

Reinsurance Recoverables

The Company reported reinsurance recoverables of $15.380 billion and $14.749 billion as of March 31, 2010 and December 31, 2009, respectively, net of allowance for doubtful accounts. The increase is primarily due to the Chilean earthquake.

The reinsurance recoverables from Nationwide Indemnity Company have been fully guaranteed by its parent, Nationwide Mutual Insurance Company, which has a financial strength rating of A+ from Standard & Poor's and A+ from A.M. Best. The reinsurance recoverables from state mandated involuntary pools and associations represent the Company's servicing carrier business. As a servicing carrier, the Company retains no direct underwriting risk but instead cedes 100% of the involuntary market premium and losses back to the pool. Payment of losses is shared by the pool participants in proportion to their pool participation. Credit risk with respect to this servicing carrier business is the composite of the cumulative creditworthiness of all participants in their respective pools.

As part of its reinsurance security oversight, the Company has established a Reinsurance Credit Committee that meets quarterly to monitor and review the credit quality of the existing reinsurance portfolio, discuss emerging trends in the reinsurance marketplace, and ensure that the current portfolio of reinsurance is in compliance with the committee's security standards. The committee is directly responsible for establishing the rating, collateral, and diversification requirements governing the Company's purchase and use of reinsurance.

Approximately 94% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better from A.M. Best at March 31, 2010. Collateral held against outstanding gross reinsurance recoverable balances was $5.512 billion and $5.774 billion as of March 31, 2010 and December 31, 2009, respectively.

The remaining 6% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best accounts for more than 2% of statutory surplus as regards policyholders. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best was approximately $1 million as of March 31, 2010.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of

amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional income statement charges.

The Company is party to retroactive reinsurance arrangements where a significant portion of the consideration was retained on a "funds held" basis and interest is credited on the balance at a weighted average rate of approximately 7.7% annually. These contracts resulted in deferred gains (including experience related profit accruals of $195 million) that are amortized into income using the effective interest method over the estimated settlement periods. As of March 31, 2010, and December 31, 2009, deferred gains related to these reinsurance arrangements were $578 million and $592 million, respectively, and are included in other liabilities within the consolidated balance sheets. Interest credited to the funds held balances for the three months ended March 31, 2010, and 2009 was $29 million for both periods. Deferred gain amortization was $17 million for the three months ended March 31, 2010 and 2009. Reinsurance recoverables related to these transactions including experience related profit accruals were $2.008 billion and $2.019 billion as of March 31, 2010, and December 31, 2009, respectively.

Additionally, the Company has an aggregate stop loss program covering substantially all of Commercial Markets voluntary workers compensation business from the fourth quarter 2000 through the fourth quarter 2002 accident year periods. Under these contracts, losses in excess of a specified loss ratio are reinsured up to a maximum loss ratio and were accounted for as prospective reinsurance at inception. However, due to a material contract change at the January 1, 2002, renewal, any premium and loss activity subsequent to December 31, 2001 is accounted for as retroactive reinsurance for coverage provided from the fourth quarter 2000 through the fourth quarter 2001 covered accident year periods. The retroactive portion of the aggregate stop loss program is included in the preceding paragraph.

In 2007, the Company entered into a multi-year property catastrophe reinsurance agreement with Mystic Re II Ltd. ("Mystic Re II"), a Cayman Islands domiciled reinsurer, to provide $150 million of reinsurance coverage for the Company and its affiliates in the event of a Northeast and/or Florida hurricane event. In the first quarter 2009, the Company entered into another agreement with Mystic Re II to provide $225 million of additional reinsurance coverage for the Company in the event of a U.S. hurricane or earthquake event. The reinsurance agreements are collateralized through a trust and guarantee received by Mystic Re II from the issuance of catastrophe bonds and provides coverage for hurricane or earthquake-related losses based on industry insured losses as reported by Property Claim Services along with company specific losses on the event. The Company has not recorded any recoveries under these programs. Mystic Re II does not have any other reinsurance in force.

Impairment Losses on Investments

If the Company believes a decline in the value of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be "other-than-temporary," and the Company believes that it will not be able to collect all cash flows due on its fixed income securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value.

The Company reviews fixed income, public equity securities and private equity and private equity co-investment securities for impairment on a quarterly basis. Securities are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, and (g) the past impairment of the security holding or the issuer. For fixed income securities where the Company does not expect to recover the entire amortized cost basis of the security, the Company will evaluate whether the other-than-temporary is a credit or a non-credit impairment. The factors considered in making an evaluation for credit

versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the debt security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration, (e) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than-temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis (all debt securities and certain preferred equity securities) or the Company's intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in market value.

Subsequent to quarter end, the Company has not recognized any additional material other-than-temporary impairments.

Variable Interest Entities

The Company invests in energy, private equity and real estate limited partnerships and other entities subject to variable interest entity (VIE) analysis under the VIE subsections of ASC 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of December 31, 2009 the Company determined that it was the primary beneficiary of two VIEs in the energy investment sector, and as such, these VIEs were consolidated in the Company's 2009 financial statements. The carrying value of assets and liabilities, and the Company's maximum exposure to loss of the consolidated VIEs were immaterial to the Company. These entities were deconsolidated in 2010 upon adoption of the revised guidance in ASC 810 when the Company determined that it did not have a controlling financial interest in the VIEs.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323. The VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. For these VIEs, the Company absorbs a portion, but not majority, of this variability. The carrying value of assets was $87 million as of March 31, 2010 and December 31, 2009, respectively and the Company's maximum exposure to loss was $98 million and $99 million as of March 31, 2010 and December 31, 2009, respectively for unconsolidated VIEs in which the Company has a significant variable interest. The assets are included in Other Investments on the Consolidated Balance Sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

Derivatives

The Company has a Derivative Use Policy, which has been approved by the Investment Committee of each domestic insurance subsidiary that has entered into derivative transactions. Pursuant to the policy, the Company may enter into derivative transactions. As of March 31, 2010, the Company had no material derivative agreements in place. In August 2008, the Company, as part of its risk management program and diversification strategy, entered into two equity swap agreements with a total notional amount of $335 million. These contracts matured in January 2009 resulting in realized gains of $25 million for the period ended March 31, 2009.

Deferred Acquisition Costs and Acquired In-force Policy Intangibles

Total deferred policy acquisition costs and acquired in-force policy intangibles were $2.674 billion and $2.636 billion as of March 31, 2010 and December 31, 2009, respectively. Deferred policy acquisition costs are costs that vary with, and are primarily related to, the acquisition of new and renewal insurance and investment contracts that are deferred and amortized over the respective policy terms. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales, underwriting and administrative expenses. Acquired in-force policy intangibles are costs associated with the acquisitions of Ohio Casualty and Safeco that equal the fair value of in-force insurance contracts at the date of acquisition. Amortization of these assets will occur over the remaining policy term.

Goodwill

Goodwill assets were $4.735 billion and $4.748 billion as of March 31, 2010 and December 31, 2009, respectively. Goodwill is tested for impairment at least annually (performed in the fourth quarter) using a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a “market” rate and is measured as the difference between the carrying amount and the implied fair value. No impairments were recorded in 2010 or 2009. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and adjustments to valuation allowances for acquired tax losses.

Deferred Income Taxes

The net deferred income tax asset was $1.438 billion and $1.691 billion as of March 31, 2010 and December 31, 2009, respectively, net of a valuation allowance of $163 million and $160 million, respectively. The net decrease in the Company’s net deferred income tax asset is primarily due to the change in net unrealized capital gains and losses on certain investments and a non-recurring charge due to a tax law change. The net increase in the Company’s valuation allowance is primarily due to foreign currency translation adjustments. Management believes it is more likely than not that the Company’s net deferred income tax asset will be realized based on the Company’s ability and likelihood of generating future taxable income.

The income tax provision is calculated under the liability method. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are net unrealized capital gains and losses on certain investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses and intangible assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in millions):

Balance at December 31, 2009	$221
Additions based on tax positions related to current year	13
Additions for tax positions of prior years	2
Reductions for tax positions of prior years	-
Settlements	-
Balance at March 31, 2010	$236

Included in the tabular roll forward of unrecognized tax benefits is interest in the amount of $88 million and $85 million as of March 31, 2010, and December 31, 2009, respectively.

Included in the balance at March 31, 2010, are $133 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. During the three months ended March 31, 2010 and the year ended December 31, 2009, the Company recognized approximately $3 million and $18 million of interest and penalties, respectively. The Company had approximately $85 million and $82 million of interest and penalties accrued at March 31, 2010 and December 31, 2009, respectively.

The Company does not expect any material changes to the unrecognized tax benefits within 12 months of the reporting date.

The IRS has completed its review of the Company's Federal income tax returns through the 1998 tax year and is currently reviewing income tax returns for the 1999 through 2007 tax years. Any adjustments that may result from the IRS examination of these income tax returns are not expected to have a material impact on the financial position, liquidity or results of operations of the Company.

About the Company

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and fifth largest property and casualty insurer in the U.S. based on 2009 direct written premium. The Company also ranks 71st on the Fortune 500 list of largest corporations in the United States based on 2009 revenue. As of December 31, 2009, LMG had $109.475 billion in consolidated assets, $94.961 billion in consolidated liabilities, and $31.094 billion in annual consolidated revenue.

LMG, through its subsidiaries and affiliated companies, offers a wide range of property-casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, LMIC, LMFIC and EICOW, each became separate stock insurance companies under the ownership of Liberty Mutual Holding Company Inc.

Functionally, the Company conducts substantially all of its business through four strategic business units: Personal Markets, Commercial Markets, Agency Markets and International. Each business unit operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMG employs more than 45,000 people in more than 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.